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May 18, 2007

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House of Representatives

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The Honorable C. W. Bill Young
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Subject: *Global War on Terrorism: Reported Obligations for the Department of Defense*

Since 2001, Congress has provided the Department of Defense (DOD) with hundreds of billions of dollars in supplemental and annual appropriations for military

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operations in support of the Global War on Terrorism (GWOT).¹ DOD's reported annual costs for GWOT have shown a steady increase from about \$0.2 billion in fiscal year 2001 to about \$98.4 billion in fiscal year 2006. So far in fiscal year 2007, Congress has provided DOD with \$70 billion in annual appropriations² for GWOT. To continue its GWOT operations, DOD has requested an additional \$93.4 billion in supplemental appropriations for fiscal year 2007 and \$141.7 billion in appropriations for fiscal year 2008. The United States' commitments to GWOT will likely involve the continued investment of significant resources, requiring decision makers to consider difficult trade-offs as the nation faces an increasing long-range fiscal challenge. The magnitude of future costs will depend on several direct and indirect cost variables and, in some cases, decisions that have not yet been made. DOD's future costs will likely be affected by the pace and duration of operations, the types of facilities needed to support troops overseas, redeployment plans, and the amount of equipment to be repaired or replaced.³

DOD compiles and reports monthly and cumulative incremental obligations⁴ incurred to support GWOT in a monthly *Supplemental and Cost of War Execution Report*. DOD leadership uses this report, along with other information, to advise Congress on the costs of the war and to formulate future GWOT budget requests. DOD reports these obligations by appropriation, contingency operation,⁵ and military service or defense agency. The monthly cost reports are typically compiled in the 45 days after the end of the reporting month in which the obligations are incurred.⁶ DOD has prepared monthly reports on the obligations incurred for its involvement in GWOT since fiscal year 2001.

Section 1221 of the National Defense Authorization Act for Fiscal Year 2006⁷ requires us to submit quarterly updates to Congress on the costs of Operation Iraqi Freedom and Operation Enduring Freedom based on DOD's monthly *Supplemental and Cost*

¹ After the terrorist attacks of September 11, 2001, the President announced a Global War on Terrorism, requiring the collective instruments of the entire federal government to counter the threat of terrorism. Ongoing military and diplomatic operations overseas, especially in Iraq and Afghanistan, constitute a key part of GWOT. These operations involve a wide variety of activities, such as combating insurgents, civil affairs, capacity building, infrastructure reconstruction, and training military forces of other nations.

² That portion of annual appropriations designated for GWOT, also known as Title IX or bridge funding, was provided by Congress to pay for ongoing military operations during the first part of the fiscal year.

³ For more information see GAO, *Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight*, GAO-07-308SP (Washington, D.C.: Jan. 9, 2007), and *Global War on Terrorism: Observations on Funding, Costs, and Future Commitments*, GAO-06-885T (Washington, D.C.: July 18, 2006).

⁴ According to Department of Defense *Financial Management Regulation*, 7000.14-R, Volume 1, Definitions, p. xvii (December 2001), obligations are incurred through actions such as orders placed, contracts awarded, services received, or similar transactions made by federal agencies during a given period that will require payments during the same or a future period.

⁵ DOD defines contingency operations to include small, medium, and large-scale campaign-level military operations, including support for peacekeeping operations, major humanitarian assistance efforts, noncombatant evacuation operations, and international disaster relief efforts.

⁶ Volume 12, Chapter 23, of DOD *Financial Management Regulation*, 7000.14-R. This regulation generally establishes financial policy and procedures related to DOD contingency operations. Volume 6A, Chapter 2, and Volume 3, Chapter 8, of the DOD *Financial Management Regulation* also include provisions to ensure the accuracy of cost reporting.

⁷ Pub. L. No. 109-163, § 1221(c) (2006).

of War Execution Reports. This report, which responds to this requirement, contains our analysis of DOD's reported obligations for military operations in support of GWOT through February 2007. Specifically, we assessed (1) DOD's appropriations and reported obligations for military operations in support of GWOT to date and (2) DOD's fiscal year 2007 reported obligations for GWOT by military service and appropriation account.

Scope and Methodology

To conduct our work, we analyzed applicable annual and supplemental appropriations from fiscal year 2001 through February 2007 and DOD's monthly Supplemental and Cost of War Execution Reports from September 2001 to February 2007. Specifically, we identified appropriated amounts intended for GWOT and reported GWOT obligations for each operation, military service, and appropriation account. Our prior work⁸ has found the data in DOD's monthly Supplemental and Cost of War Execution Report to be of questionable reliability. Consequently, we are unable to ensure that DOD's reported obligations for GWOT are complete, reliable, and accurate, and they therefore should be considered approximations. Factors contributing to DOD's challenges in reporting reliable cost data include long standing deficiencies in DOD's financial management systems.

DOD is taking steps to improve GWOT cost reporting. Specifically, over the years, we have made a series of recommendations to the Secretary of Defense intended to improve the transparency and reliability of DOD's GWOT obligations and DOD has implemented many of these recommendations. For example we have recommended that DOD (1) revise the cost reporting guidance so that large amounts of reported obligations are not shown in "other" miscellaneous categories and (2) take steps to ensure that reported GWOT obligations are reliable. In response, DOD has modified the guidance to more clearly define some of the cost categories and is taking additional steps, which we have not yet fully evaluated, to strengthen the oversight and program management of the cost reporting. We are continuing to review the fiscal year 2007 funding requirements and reported obligations, the reliability of the obligations, and DOD's ongoing efforts to improve its cost reporting, which include procedures for attesting to the accuracy of data and analyzing variances. We will report on our findings later this year.

We conducted our work from March 2007 through April 2007 in accordance with generally accepted government auditing standards.

⁸ For more information see GAO, *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs*, GAO-05-882 (Washington, D.C.: Sept. 21, 2005), and *Global War on Terrorism: Fiscal Year 2006 Obligation Rates Are Within Funding Levels and Significant Multiyear Procurement Funds Will Likely Remain Available for Use in Fiscal Year 2007*, GAO-07-76 (Washington, D.C.: Nov. 13, 2006).

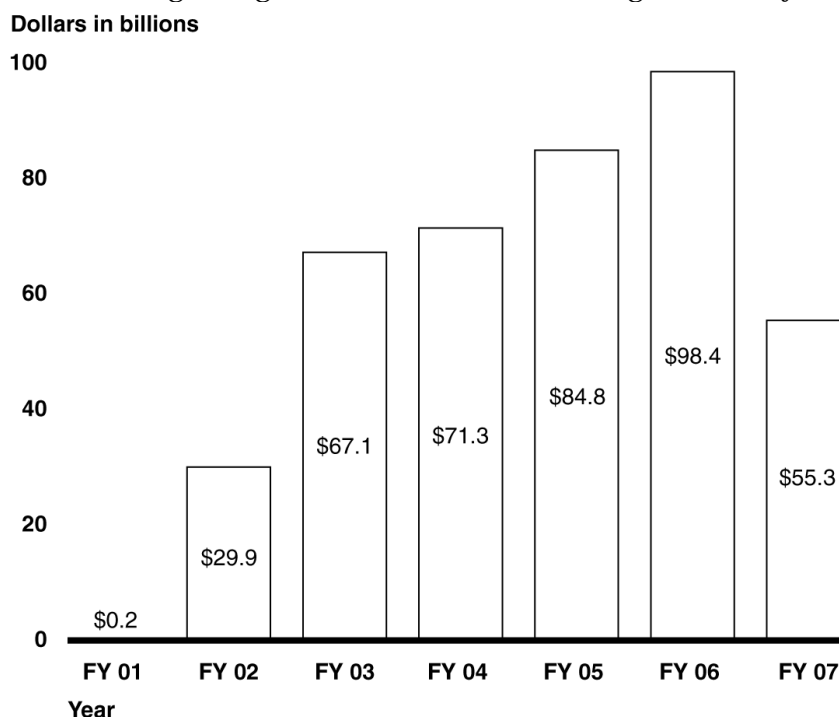
Summary

From fiscal year 2001 through April 2007, Congress has provided DOD with about \$454 billion⁹ for its efforts in support of GWOT. DOD has reported obligations of about \$407.1 billion for military operations in support of the war from fiscal years 2001 through 2006 and from the beginning of fiscal year 2007 through February 2007, the latest available data. The \$46.9 billion difference between DOD's GWOT appropriations and reported obligations can generally be attributed to certain fiscal year 2007 appropriations and multiyear funding for procurement; military construction; and research, development, test, and evaluation from previous GWOT-related appropriations that have yet to be obligated, and obligations for classified activities, which are not included in DOD's reported obligations.¹⁰ DOD's total reported obligations related to GWOT have demonstrated a steady annual increase each fiscal year through 2006. Figure 1 shows DOD's reported GWOT obligations by fiscal year, from fiscal year 2001 through fiscal year 2006 and from the beginning of fiscal year 2007 through February 2007.

⁹ From fiscal year 2001 through fiscal year 2004, military operations in defense of the homeland (Operation Noble Eagle) were funded through supplemental appropriations. Since fiscal year 2005, DOD has funded these operations through its regular budget, and these amounts cannot be separately identified. DOD recently began including the obligations tied to this operation, about \$3 billion, as part of its total available funding, which is included in the \$454 billion.

¹⁰ Appropriations for military personnel and operation and maintenance are usually available for 1 year, while appropriations for research and development funds are usually available for 2 years; procurement funds (with the exception of shipbuilding funds, which are sometimes longer) for 3 years; and military construction funds for 5 years.

Figure 1: DOD's Reported GWOT Obligations for Fiscal Years 2001 through 2006 and from the Beginning of Fiscal Year 2007 through February 2007



Source: GAO analysis of DOD data.

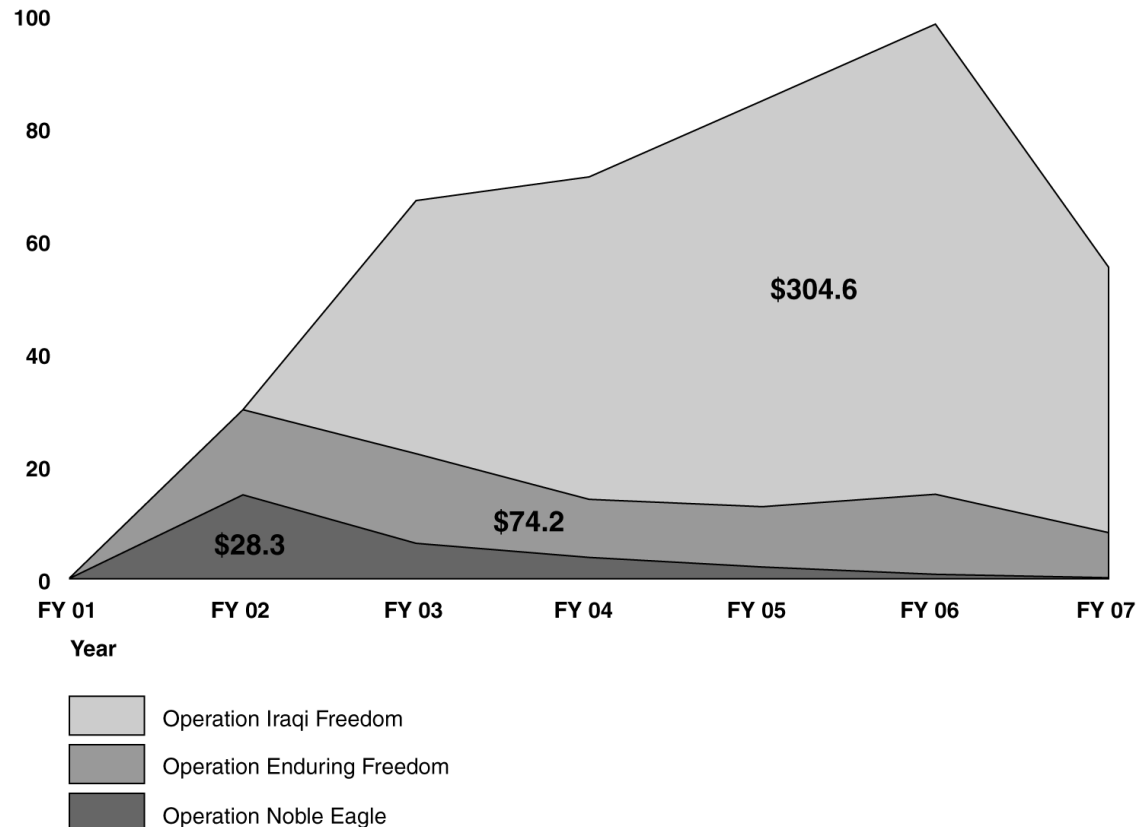
Notes: Fiscal year 2007 reflects DOD's reported obligations from October 2006 through February 2007. Reported GWOT obligations include Operation Noble Eagle, Operation Enduring Freedom, and Operation Iraqi Freedom. Figures include about \$19.4 billion obligated in fiscal years 2002 and 2003, which was not included in DOD's cost-of-war reports. This includes about \$13.3 billion from the Defense Emergency Response Fund and \$6.1 billion from Pub. L. No. 108-7 (Consolidated Appropriations Resolution, 2003). GAO has assessed the reliability of DOD's obligation data and found significant problems, such that these data may not accurately reflect the true dollar value of GWOT obligations.

Through February 2007, DOD's total reported obligations are already more than half the total amount of obligations it reported for all of fiscal year 2006. In addition, DOD's reported investment obligations—which include procurement; research, development, test, and evaluation; and military construction, through February 2007—are approximately equal to its reported obligations for investments during all of fiscal year 2006. As a result, total reported obligations for fiscal year 2007 may well exceed the amount reported for fiscal year 2006.

DOD's reported obligations to date include about \$304.6 billion for operations in and around Iraq as part of Operation Iraqi Freedom, and about \$74.2 billion for operations in Afghanistan, the Horn of Africa, the Philippines, and elsewhere as part of Operation Enduring Freedom. It also includes about \$28.3 billion for operations in defense of the homeland as part of Operation Noble Eagle. Figure 2 shows DOD's reported GWOT obligations for Operation Iraqi Freedom, Operation Enduring Freedom, and Operation Noble Eagle from fiscal year 2001 through February of fiscal year 2007.

Figure 2: DOD's Reported GWOT Obligations by Operation for Fiscal Years 2001 through 2006 and from the Beginning of Fiscal Year 2007 through February 2007

Dollars in billions



Source: GAO analysis of DOD data.

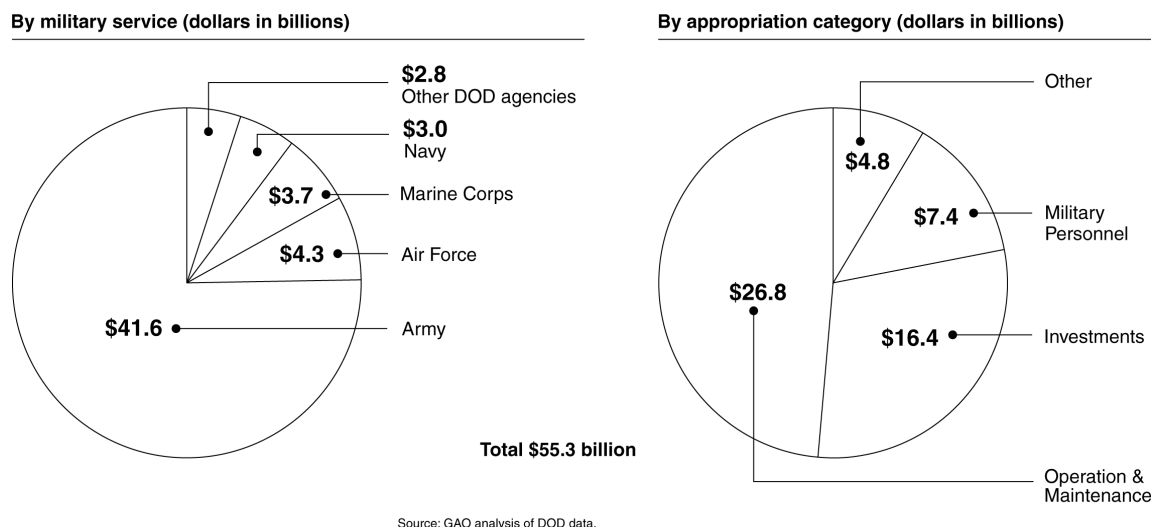
Notes: Fiscal year 2007 reflects DOD's reported obligations from October 2006 through February 2007. Operation Iraqi Freedom began in fiscal year 2003; therefore no obligations were reported in fiscal years 2001 and 2002 for this operation. Figures include about \$19.4 billion obligated in fiscal years 2002 and 2003 that was not included in DOD's cost-of-war reports. This includes about \$4.1 billion for Operation Enduring Freedom, \$9.2 billion for Operation Noble Eagle, and \$6.1 billion for Operation Iraqi Freedom. GAO has assessed the reliability of DOD's obligation data and found significant problems, such that these data may not accurately reflect the true dollar value of GWOT obligations.

As figure 2 shows, from fiscal years 2003 through 2006 DOD's reported obligations for Operation Iraqi Freedom consistently increased both in dollar amount and as a proportion of total reported GWOT obligations. In contrast, DOD's reported obligations for Operation Noble Eagle have consistently decreased since fiscal year 2003, while those for Operation Enduring Freedom have remained within a range of \$10.3 billion to \$15.9 billion each fiscal year.

DOD's reported fiscal year 2007 obligations as of February total \$55.3 billion. The Army accounts for the largest proportion of reported obligations—about \$41.6 billion, about ten times higher than the near \$4.3 billion in obligations reported for the Air Force, the service with the next greatest reported amount. Among appropriation accounts, operation and maintenance, which include items such as support for housing, food, and services; the repair of equipment; and transportation to move people, supplies, and equipment, accounts for the largest reported obligations—about \$26.8 billion. Obligations for investment, which include procurement; research,

development, test, and evaluation; and military construction, account for more than a quarter of reported obligations or about \$16.4 billion. Figure 3 shows DOD's reported obligations through February of fiscal year 2007, by military service and appropriation account.

Figure 3: DOD's Reported GWOT Obligations for Fiscal Year 2007, by Military Service and Appropriation Category, as of February 2007



Notes: GAO has assessed the reliability of DOD's obligation data and found significant problems, such that these data may not accurately reflect the true dollar value of GWOT obligations. Obligation figures may not add to \$55.3 billion because of rounding.

In previous work,¹¹ we reported that significant amounts of multiyear procurement funding provided in the fiscal year 2006 supplemental appropriation would likely not be obligated by DOD in fiscal year 2006 and would remain available for use in fiscal year 2007. A large amount of these multiyear funds has since been obligated, which accounts for the large amount of investment obligations shown in fiscal year 2007.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD stated that it has already taken action to address concerns we have raised regarding the reliability of the data presented in DOD's *Supplemental and Cost of War Execution Reports*, including requiring component organizations to attest to the accuracy of the data submitted, report data variances and the methodology for computing the data, and increased management oversight of the cost reporting process. DOD also expressed concern that we continue to represent the data in these cost-of-war reports as being of questionable reliability. We agree that DOD has taken steps to improve cost reporting, which we acknowledge in our report. We also note DOD is just beginning to implement many of these efforts, and that we are continuing to evaluate them. As we state in our scope and methodology section, we are currently evaluating the attestation and variance analysis processes to gain insights into their effect on data

¹¹ GAO-07-76.

reliability. Until all DOD's efforts are more fully implemented, it is too soon to know the extent to which these changes will improve DOD's cost reporting. While establishing sound cost reporting procedures and oversight is clearly important, the reliability of the cost-of-war reports is also dependent on the quality of DOD's accounting data. As stated in our report, factors contributing to DOD's challenges in reporting reliable cost data include long standing deficiencies in DOD's financial management systems. We are aware that DOD has efforts underway to improve these systems as well. DOD also provided technical comments and we have incorporated them in the report as appropriate. DOD's comments are included in appendix I in this report.

We are sending copies of this report to interested congressional committees; the Secretary of Defense; the Under Secretary of Defense (Comptroller); and the Director, Office of Management and Budget. Copies of this report will also be made available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9619 or pickups@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix II.

A handwritten signature in black ink that reads "Sharon L. Pickup". The signature is written in a cursive, flowing style.

Sharon Pickup
Director, Defense Capabilities and Management

Appendix I: Comments from the Department of Defense



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MAY 11 2007

Ms. Sharon Pickup
Director, Defense Capabilities and Management
U.S. Government Accountability Office
Washington, DC 20548

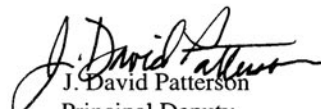
Dear Ms. Pickup:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO-07-783R, "GLOBAL WAR ON TERRORISM: Reported Obligations for the Department of Defense dated April 24, 2007 (GAO Code 350991).

The Department has already taken prudent and appropriate action to address GAO's concerns. Based on GAO recommendations, the each of the Department's component organizations attests in writing to the accuracy of the data submitted for the Department's Cost of War reports. In addition, the Department requires and analyzes footnotes in the Cost of War reports. These footnotes report data variances and describe the methodology for computing data. The Department has also increased management oversight of the cost of war reporting process by establishing a senior level steering group and program management office. I am concerned, however, that, despite our actions, the GAO report continues to represent the data in the Department's Cost of War report as being of questionable reliability.

We are constantly striving to improve the Cost of War report. We value the GAO's important contribution to our process of continual improvement. We look forward to working with your staff on our plans to further improve the Department's Cost of War reports.

Sincerely,


J. David Patterson
Principal Deputy

Appendix II: GAO Contact and Staff Acknowledgements

GAO Contact

Sharon Pickup (202) 512-9619

Acknowledgements

In addition to the contact listed above, Ann Borseth, Assistant Director, Susan Ditto, George Duncan, Richard Geiger, Ron La Due Lake, Brian Mateja, Lonnie McAllister, Christopher Miller, and Thomas Twambly made key contributions to this report.

(350991)

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